DEPARTMENT OF THE NAVY
SPACE AND NAVAL WARFARE SYSTEMS COMMAND
4301 PACIFIC HIGHWAY
SAN DIEGO, CA 92110–3127

SPAWARINST 5041.2
SPAWAR 00G
09 FEBRUARY 1998

SPAWAR INSTRUCTION 5041.2

From: Commander, Space and Naval Warfare Systems Command

Subj: PREVENTION OF FRAUD, WASTE AND MISMANAGEMENT

Ref: (a) DOD 5500.7-R, Joint Ethics Regulation
       (b) U.S. Navy Regulations, 1990
       (c) SPAWARINST 5040.3
       (d) SPAWARINST 7540.4D

Encl: (1) Chapter 1—Hotline Program
       (2) Chapter 2—Command Evaluation Program
       (3) Chapter 3—Management Control Program

1. <u>Purpose</u>. To provide policy and assign responsibilities and procedures for a comprehensive program to prevent, deter, detect and report fraud, waste, and mismanagement within the Space and Naval Warfare Systems Command (SPAWAR).

2. <u>Cancellation</u>. This instruction supersedes and cancels SPAWARINST 5041.1, SPAWARINST 5200.27A, and SPAWARINST 5280.1.

3. <u>Background</u>.

   a. Action to prevent, deter and detect instances of fraud, waste, and mismanagement is the responsibility of all personnel. SPAWAR's comprehensive program to fulfill this responsibility is managed by its Inspector General. The SPAWAR Command Evaluation, Hotline, Management Control, and Command Inspection Programs are the key elements of this comprehensive program. Those programs are described in enclosures (1) through (3).

   b. Reference (a) prescribes standards of ethical conduct required of all Department of Defense personnel, including responsibilities and procedures for monitoring and enforcing compliance with standards of conduct.

   c. Reference (b) addresses the responsibility of commanding officers for economy within their commands, which includes the requirement for rigid compliance with regulations governing receipt, accounting, and expenditure of public moneys and for the implementation of improved management techniques and procedures.

   d. Reference (c) deals with the Command Inspection Program and reference (d) covers SPAWARs program to monitor and coordinate the work of external organizations reviewing

SPAWAR functions or operations. Other pertinent references are discussed in detail in enclosures (1) through (3).

4. Definitions

a. Fraud. Any willful taking or attempting to take unfair advantage of the government through deceit, misrepresentation, or concealment including, but not limited to, the offer, payment, or acceptance of bribes; the offer, giving, or acceptance of gratuities as set forth in reference (a); making false statements; submission of false claims; use of false weights and measures; evasion or corruption of inspectors and other officials; deceit either by suppression of the truth or misrepresentation of a material fact; adulteration or substitution of materials; falsification of records and books of account; arrangement of secret profits, kickbacks, or commissions; and conspiracy to use any of these devices. It also includes those cases of conflict of interest, criminal irregularities, and unauthorized disclosure of official information which are connected with procurement and disposal matters.
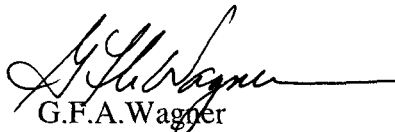
b. Waste. Any extravagant, careless, or needless expenditure of government funds or consumption of government property.

c. Mismanagement. Any action that fails to meet the standard for public stewardship of funds, resources, and property. Any action dealing with the administration of military and civilian personnel matters that has an unwarranted adverse effect on the person who is the subject of such action, whether it is an act of commission or omission. Any nonfeasance or malfeasance that affects the operations or capabilities of SPAWAR or the Department of the Navy.

d. Other Definitions. Additional pertinent definitions are contained in enclosures (1) through (3).

5. Policies, responsibilities, and procedures for the command-wide programs identified in paragraph 3(a) are contained in enclosures (1) through (3).

6. Action. SPAWAR personnel shall utilize the guidance and comply with the policies and procedures set forth in enclosures (1) through (3).

G.F.A.Wagner
Rear Admiral, U.S. Navy

Distribution:
SPAWAR List 2

SNDL Part II:
FKQ (All SPAWAR Activities)

PREVENTION OF FRAUD, WASTE AND MISMANAGEMENT

CHAPTER 1

HOTLINE PROGRAM

SPAWAR

SPACE AND NAVAL WARFARE SYSTEMS COMMAND

CHAPTER 1

HOTLINE PROGRAM

Ref: (a) SECNAVINST 5430.57F
       (b) SECNAVINST 5370.5A
       (c) SECNAVINST 5430.92A

Purpose

To publish policy, assign responsibilities, and prescribe procedures for the Space and Naval Warfare Command (SPAWAR) in executing the Navy and DoD Hotline Programs.

Background

Per reference (a), the Naval Inspector General oversees and monitors the Navy and Department of Defense (DoD) Hotline Programs within the Navy. These programs, as described in reference (b), are designed to strengthen and focus efforts to combat fraud, waste of resources, abuse of authority, and mismanagement throughout the DoD. SPAWAR is responsible for encouraging maximum participation in these programs, implementing procedures for timely and thorough examination of Hotline allegations, and ensuring proper submission of reports in accordance with references (a) through (c).

Policy

SPAWAR shall strive to maintain the highest level of effectiveness, efficiency, integrity, and public confidence. Conscientious behavior and Navy regulations require all civilian and military personnel to report fraud, waste, abuse, and mismanagement to proper authority. All inquiries into matters affecting the integrity and efficiency of SPAWAR shall be conducted in an independent and professional manner, without undue influence or fear of reprisal from any level within SPAWAR. Allegations of misconduct shall be thoroughly and impartially investigated and reported.

Procedures

The SPAWAR Telephone Hotline, (619) 524-7070, may be called 24 hours a day and will be staffed during working hours from 0700-1630. Written Hotline complaints may be made by writing Commander, Space and Naval Warfare Systems Command (Code 00G) 4301 Pacific Highway, San Diego, CA 92110-3127. Alternatively, complaints may be electronically mailed to IGhotline@spawar.navy.mil.

Complainants may identify themselves or remain anonymous. A complaint to the SPAWAR Inspector General is a "protected communication" disclosure under a Whistleblower Protection statute by a person the statute allows to transmit such information, provided the information is disclosed to someone authorized by the statute to receive protected communications. However, not all whistleblower communications are protected communications. The statute applicable to military members, 10 USC 1034, is an exception. In any instance where the complainant provides identifying information the investigating officer or official obtaining the information will not reveal it to any other party, except the SPAWAR Inspector General, without the express permission of the complainant.

Responsibilities

SPAWAR , Office of the Inspector General (SPAWAR 00G) is the single point of contact for all SPAWAR, Navy, and DoD Hotline Program matters. SPAWAR 00G will maintain a Command Hotline. The SPAWAR Hotline provides an opportunity to report instances of fraud, waste, abuse of authority, gross mismanagement, or other wrongdoing concerning SPAWAR or SPAWAR Systems Centers (SPAWARSYSCENs) to the Inspector General by telephone, mail, electronically or in person. Anyone may contact the SPAWAR Hotline to report allegations of fraud, waste, abuse of authority, gross mismanagement, or wrongdoing.

SPAWAR Staff Offices, Program Directorates, and SPAWARSYSCEN Commanding Officers shall publicize and distribute SPAWAR, Navy, and DoD Hotline Program information, making sure that telephone numbers and addresses for the Hotlines are prominently displayed throughout the command and available to all employees, including those located at SPAWARSYSCEN Detachments.

Supervisory Personnel

1. Set an example with regard to each SPAWAR employee's responsibility, accountability, and personal conduct in the prevention of fraud, waste, abuse and mismanagement.

2. Be accessible to those who wish to report violations or suspected instances of fraud, waste, abuse and mismanagement.

Employees shall use the chain of command for registering complaints and grievances, for suggesting management improvements and for reporting suspected fraud, waste, abuse or mismanagement. However, if a link in the chain of command is an apparent cause of a perceived violation, reports should be made to the Inspector General.

PREVENTION OF FRAUD, WASTE AND MISMANAGEMENT

CHAPTER 2

COMMAND EVALUATION PROGRAM

SPAWAR

SPACE AND NAVAL WARFARE SYSTEMS COMMAND

CHAPTER 2

COMMAND EVALUATION PROGRAM

Ref: (a) OPNAVINST 5000.52A
          (b) SECNAVINST 5200.35C
          (c) OPNAVINST 5200.25C

Purpose

To provide policy and responsibilities for the Command Evaluation (CE) Program within SPAWAR in accordance with references (a) through (d).

Background

Reference (a) established the CE Program to ensure that an independent local assessment capability is available to each activity's commander/Commanding Officer (CO). The CO can tailor the CE function to the needs of the local command.

Policy

It is the policy of the Commander, Space and Naval Warfare Systems Command that a strong CE Program will be implemented and maintained at SPAWAR and its System Centers (SPAWARSYSCENs).

Definition

CE is an independent assessment capability that reports directly to the CO. CE assesses activities and functional areas to determine whether they are complying with laws and regulations; reporting accurate and fairly presented information; meeting goals and objectives; safeguarding and efficiently utilizing resources; and maintaining an appropriate and effective internal management control program.

Relationship and Role

Relationship between CEP and Management Control Program (MCP) at SPAWAR Headquarters and at SPAWAR Activities. References (b) and (c) establish policy for the MCP within Navy. Chapter 3 of this instruction establishes and implements the SPAWAR MCP. The MCP and CEP, working together, should provide the activity with the best possible information on the system of internal controls. Given the goal of preventing misuse of resources, it is highly desirable that the two functions share information and coordinate efforts so as to increase the effectiveness of the MCP. Accordingly, CEP staff should be consulted in the management control process (scheduling of management control reviews, preparation of the certification statement, etc.). Routine evaluations of management controls should be included within the scope of CEP evaluations and reflected in the resultant reports.

Staffing and Follow-up

CE reports should be staffed with the management of the cognizant activities or functional areas reviewed before the final report is forwarded to the CO. Specifically, the reports should be provided to the management of the activity or functional areas reviewed to determine if management agrees with the report as stated, and concurs with any recommendations that may be included in the report. Resolution of any disagreement or nonconcurrence should be attempted before forwarding the report to the CO. Management comments should be forwarded with the CE report to the CO. After the report is final, follow-up action should be performed to confirm that agreed upon corrective action or action directed by the CO has been taken. SPAWAR 00G will maintain a followup system to monitor the status of actions taken by management to implement command inspection recommendations, CE recommendations, and external audit recommendations. SPAWARSYSCENs are responsible for monitoring the status of management actions taken to implement command inspection recommendations, CE recommendations and external audit recommendations. Recommendations will be tracked through completion. SPAWAR 00G will include reviews of followup action when conducting command inspections.

Release of Reports. Reports or other documents produced by CE will be subject to the same release guidelines and procedures as other documents produced by the command. Requests for CE reports under the Freedom of Information Act will be processed by SPAWAR's Office of Counsel (Code 00C).

Standards. When conducting reviews and evaluations, the following standards should be maintained:

1. Independence. CE offices, individual evaluators, and reviewers must be free from personal, external or organizational impairments and must consistently maintain independence and impartiality.

2. Professional Proficiency. CEP offices shall assign to each review and evaluation those persons who collectively possess the necessary knowledge, skills and disciplines to properly conduct the review. Sufficient training and development opportunities must be provided to maintain and improve professional proficiency.

3. Scope of Work. The scope of each effort shall include an evaluation of the adequacy and effectiveness of the organization's system of management controls.

4. Documentation. Conclusions and recommendations shall be adequately supported by information obtained or developed during the review and evaluation. This standard requires sufficient evidence of the activity's internal controls as well as pertinent transactions and events under review and evaluation to afford a reasonable basis for the evaluator's judgment and conclusions. This record shall be maintained in the form of working papers properly indexed and cross referenced.

5. Reports. Written reports to management shall communicate the results of the review and evaluation in an effective, understandable, and timely manner.

Responsibilities

SPAWAR Inspector General (SPAWAR 00G) is responsible for the CE Program at SPAWAR and oversight of the programs at SPAWARSYSCENs. This responsibility includes:

1. Preparing an annual review and evaluation plan (calendar year basis) for approval by SPAWAR 00 and updating the plan when required.

2. Performing reviews and evaluations.

3. Performing followup on correction of deficiencies identified by CEP recommendations at SPAWAR.

4. Monitoring audit and CEP followup efforts of SPAWARSYSCENs.

5. Evaluating internal management controls within the scope of CE reviews and reflecting the conclusions in the resultant CE reports.

6. Making CE reports available for use as potential alternate management control reviews.

7. Providing CE Program policy guidance and assistance to SPAWARSYSCENs.

PREVENTION OF FRAUD, WASTE AND
MISMANAGEMENT

CHAPTER 3

MANAGEMENT CONTROL PROGRAM

SPAWAR

SPACE AND NAVAL WARFARE SYSTEMS COMMAND

CHAPTER 3

MANAGEMENT CONTROL PROGRAM

Ref: (a) SECNAVINST 5200.35D
      (b) OPNAVINST 5200.25C
      (c) DOD Directive 5010.38
      (d) DOD Directive 5010.40
      (e) OMB Circular A-123
      (f) Federal Managers' Financial Integrity Act of 1982
      (g) OPNAV P-09B2-05-92—CNO Management Control Program Manual

Purpose

To establish Space and Naval Warfare Systems Command (SPAWAR) policy for the Management Control Program (MCP) to ensure that all resources are effectively and efficiently managed.

Background

References (a) and (b) established the MCP within the Department of the Navy to develop, maintain, review and improve internal control systems in compliance with references (c) through (f). Reference (g) provides a training tool for all managers and coordinators under the Chief of Naval Operations.

Program Objectives

Management controls, an inherent management responsibility, are designed to provide cost-effective assurance that resources are not being misused. The MCP is not a guarantee against misuse of resources. Rather, the MCP is based on information provided by managers and other sources to balance the risk of misuse against the cost of protection. Internal controls are designed to provide management with reasonable assurance that:

1. Obligations and costs comply with applicable law.

2. Assets are safeguarded against waste, loss, unauthorized use and misappropriation.

3. Revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of assets may be maintained.

4. Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

Policy

By law, managers are responsible for ensuring that effective internal controls are used to protect resources from misuse. SPAWAR's policy is to hold its managers accountable for the results of their internal control systems. Managers and supervisors will establish and maintain a viable MCP as delineated in the above references. This policy applies to all programs, to include classified and special access programs. Program and report requirements are contained in reference (a).

Definitions

1. <u>Annual Internal Control Certification Statement</u>. Managers are required to review the state of their internal controls on a continuing basis. Annually, status reports must be passed up the chain of command. SPAWARSYSCENs Commanding Officers and SPAWAR directorate heads and program directors must provide their reports to COMSPAWAR who then reports to the Chief of Naval Operations. Each report states whether the organization's internal controls provide "reasonable assurance" that resources are protected in a cost-effective and efficient manner, with exceptions being specified. "Reasonable assurance" implies that some instances of misuse of resources may have occurred, but that in total the internal controls are satisfactory.

2. <u>Assessable Unit</u>. A discrete unit controlled by a manager. An assessable unit is the minimal basis on which a risk assessment or management control review may be conducted. Assessable units are to be identified within the 15 DOD functional categories.

3. <u>Documentation</u>. Documentation of management control activities is required to the extent needed by management to control its operations effectively and may be generated by activities not specifically established to meet the requirements of the MCP. Documentation for management control systems is mandated by reference (e) and encompasses the following two types of written materials:

a. <u>Review Documentation</u>. Shows the type and scope of the review, the responsible official, the pertinent dates and facts, the key findings and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.

b. <u>System Documentation</u>. Includes policies and procedures, organizational charts, manuals, flow charts and related written and graphic materials necessary to describe organizational structure, operating procedures and administrative practices, and to communicate responsibilities and authority for accomplishing programs and activities.

4. <u>Management Control Evaluation</u>. A documented examination of an assessable unit to determine whether adequate control techniques exist to determine whether adequate control techniques exist and are achieving their intended objectives. Testing of controls and documentation must be accomplished. Management control evaluations are of the following two types:

a. <u>Alternative Management Control Review (AMCR)</u>. A process utilizing the results of audits, computer security reviews, financial systems reviews, inspections, investigations, TQL process action team results, or studies to determine overall compliance with the General Accounting Office Internal Control Standards.

b. <u>Management Control Review (MCR)</u>. A detailed examination by the responsible manager of the system of management controls in an assessable unit to determine the adequacy of controls, and to identify and correct deficiencies. Management control reviews should be conducted only when a reliable AMCR is not available.

5. <u>Management Controls</u>. The means used to ensure that resources are safeguarded; information is accurate and reliable; laws, regulations and policies are adhered to; and operations are effective and efficient.

6. <u>Manager</u>. For the purposes of this instruction, a manager is defined to be any employee responsible for resources. This includes, but is not limited to, any employee (civilian or military equivalent) whose job title includes the word supervisory.

7. <u>Material Weakness</u>. A lack of or breakdown in internal controls of sufficient importance that it should be reported by SPAWAR managers to COMSPAWAR or within the SPAWARSYSCENs to the Commanding Officer.

8. <u>Reasonable Assurance</u>. The judgement by a DON component head based upon all available information that the component systems of management controls are operating as intended by reference (f).

9. <u>Risk Assessment</u>. A documented review by management of an assessable unit's susceptibility to fraud, waste or mismanagement. Management evaluates the general control environment, analyzes the inherent risks and arrives at a preliminary assessment of the safeguards for the assessable unit.

10. <u>Testing</u>. Procedures to determine through observation, examination, verification, sampling or other procedures whether management control systems are working as intended.

Responsibilities

SPAWAR, Office of the Inspector General (SPAWAR 00G)

1. Provide overall policy, procedures and oversight of a SPAWAR command-wide MCP.

2. Coordinate, prepare and submit all reports required by references (a) and (b) for COMSPAWAR signature.

3. Develop and maintain a Headquarters-wide inventory of assessable units. Coordinate revisions and updates to the inventory as necessary, and forward to all Headquarters Staff Offices and Program Directorates.

4. Maintain a system to track corrective actions for material control weaknesses identified through both internal and external reviews.

5. Establish a uniform system for all SPAWAR components to track assessable units.

6. Inspect the MCP during command inspections of SPAWARSYSCENs.

7. Provide management control training and training oversight to coordinators and managers.

8. Work to continuously improve the program. Conduct quality assurance reviews of SPAWAR components' programs at least once every three years.

SPAWAR Staff Office, Program Directorates and SPAWARSYSCENs

1. Ensure MCPs under their purview are implemented and functioning.

2. Designate a MCP coordinator to administer the program.

3. Establish an inventory of assessable units for the activity's processes and functions based on the SPAWAR inventory maintained by SPAWAR 00G. Update the inventory as necessary to reflect changes in the organization and/or functional managers. Review the inventory at least once a year to ensure its accuracy. (SPAWARSYSCENs can add assessable units not listed on the SPAWAR inventory).

4. Identify the functional and senior manager for each assessable unit. A functional manager performs the day-to-day operations and conducts the risk assessment. A senior manager reviews,

approves, and is ultimately accountable for the risk assessment. The senior manager at SPAWAR is the functional manager's first or second level supervisor

5. Ensure that all functional managers conduct risk assessments and all senior managers review risk assessments.

6. Establish and annually update a schedule to conduct management control reviews for all assessable units.

7. Ensure functional managers conduct and document required management control reviews. Reference (f) provides detailed instructions on conducting management control reviews. Alternate processes such as command evaluations, audits, financial or contracting reviews, or even Total Quality Management process action team results can be substituted for management control reviews if the process tests internal controls and is documented.

8. A material weakness should be reported via the chain of command as soon as it is identified by a management control review or by other processes. (Reference (a) provides specific criteria for a material weakness. In general, a commanding officer should consider a weakness material if the next higher echelon is needed to resolve the problem or if it should be brought to the attention of the higher echelon as a point of information.) Report corrective action taken on previously reported material weaknesses and any new material weaknesses to SPAWAR 00G by 30 June annually.

9. Maintain a system to track and document corrective action on all material weaknesses. Corrective actions must be tested before they can be dropped from the tracking system.

10. Provide reports and other documentation to SPAWAR 00G via the chain of command as requested.

11. SPAWARSYSCEN Commanding Officers shall provide assistance and management control training to coordinators and managers.